

Borough Council of
**King's Lynn &
West Norfolk**



Audit Committee

Agenda

Monday, 17th September, 2018
at 5.00 pm

in the

Council Chamber
Town Hall
Saturday Market Place
King's Lynn
PE30 5DQ



King's Court, Chapel Street, King's Lynn, Norfolk, PE30 1EX
Telephone: 01553 616200
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7 September 2018

Dear Member

Audit Committee

You are invited to attend a meeting of the above-mentioned Panel which will be held on **Monday, 17th September, 2018 at 5.00 pm** in the **Council Chamber, Town Hall, Saturday Market Place, King's Lynn PE30 5DQ** to discuss the business shown below.

Yours sincerely

Chief Executive

AGENDA

1. Apologies

2. Minutes (Pages 4 - 39)

To approve the minutes from the Audit Committee held on 30 July 2018.

3. Declarations of Interest

Please indicate if there are any interests which should be declared. A declaration of an interest should indicate the nature of the interest (if not already declared on the Register of Interests) and the agenda item to which it relates. If a disclosable pecuniary interest is declared, the Member should withdraw from the room whilst the matter is discussed.

These declarations apply to all Members present, whether the Member is part of the meeting, attending to speak as a local Member on any item or simply observing the meeting from the public seating area.

4. Urgent Business Under Standing Order 7

To consider any business which, by reason of special circumstances, the

Chairman proposed to accept as urgent under Section 100(b)(4)(b) of the Local Government Act 1972.

5. Members Present Pursuant to Standing Order 34

Members wishing to speak pursuant to Standing Order 34 should inform the Chairman of their intention to do so and on what items they wish to be heard before the meeting commences. Any Member attending the meeting under Standing Order 34 will only be permitted to speak on those items which have been previously notified to the Chairman

6. Chairman's Correspondence (if any)

7. Annual Audit Letter for year ending 31 March 2018 (Pages 40 - 64)

8. Committee Work Programme 2018/2019 (Pages 65 - 67)

To note the Committee's Work Programme for 2018/2019.

9. Date of Next Meeting

To note that the date of the next meeting of the Audit Committee will take place on Monday 12 November 2018 at 5 pm in the Council Chamber, Town Hall, Saturday Market Place, King's Lynn.

To:

Audit Committee: Mrs J Collingham, J Collop, S Dark, P Kunes, C Manning, G Middleton (Chairman), D Pope, T Smith and T Tilbrook (Vice-Chairman))

Portfolio Holders:

Councillor B Long, Leader

Officers:

Kathy Woodward, Shared Audit Manager

Management Team Representative:

Lorraine Gore – Executive Director and Deputy Chief Executive

BOROUGH COUNCIL OF KING'S LYNN & WEST NORFOLK

AUDIT COMMITTEE

**Minutes from the Meeting of the Audit Committee held on
Monday, 30th July, 2018 at 5.00 pm in the Council Chamber, Town Hall,
Saturday Market Place, King's Lynn PE30 5DQ**

PRESENT: G Middleton (Chairman)
Councillors Mrs J Collingham, J Collop, P Kunes, C Manning, T Smith, T Tilbrook
and A White

Portfolio Holders: Councillors P Hodson and B Long

A19 **MINUTES**

RESOLVED: The Minutes of the meeting held on held on 30 May 2018 were approved as a correct record and signed by the Chairman.

A20 **DECLARATIONS OF INTEREST**

None

A21 **URGENT BUSINESS UNDER STANDING ORDER 7**

None

A22 **MEMBERS PRESENT PURSUANT TO STANDING ORDER 34**

None, although Councillors L Bambridge and S Fraser were attending for the training session.

A23 **CHAIRMAN'S CORRESPONDENCE (IF ANY)**

The Chairman reported that he had attended the Cabinet to present the report on the effectiveness of the Audit Committee, and spoke about the Audit Committee training plans. He explained that he hoped to get some overall Audit Committee training in place which could be the obligatory training for Members, and other training would be arranged according to subject matters required.

A24 **TRAINING - STATEMENT OF ACCOUNTS**

The Committee received training from the Group Accountant on the Statement of Accounts.

The Committee agreed that in future years, when the draft accounts were issued in May a full training session should be provided shortly after. When the final accounts were agreed an update training session should be held on the changes since the draft was issued.

A25

STATEMENT OF ACCOUNTS AND EXTERNAL ISA 260 REPORT

In presenting the ISA 260 report, the External Auditor, Dan Cook, advised that the audit of the Borough Council had been completed for the year ended 31 March 2018 and that the outstanding matters listed in their report had now all been concluded. He confirmed that they were issuing an unqualified audit opinion on the financial statements in the form at Section 3. He acknowledged the assistance given by the S151 Officer and her team to carry out the audit, particularly with the new deadline of 31 July 2018 for the closure of accounts. He considered that it was a good Audit outcome.

Ernst and Young advised that the report was intended solely for the use of the Audit Committee, other Members of the Authority and senior management; it should not be used for any other purpose or given to any other party without obtaining the External Auditor's consent.

The Committee's attention was drawn to the following items:

- All of the items listed as requiring completion had now been finalised.
- Some issues had been corrected, but there were no unadjusted figures.
- There were no additional areas of Risk identified that were not already included in the report.
- The comments on the pension fund were the same for all Councils and was a difference in the reporting periods of the Actuary and the Pension Fund.
- He had made a recommendation that procedures be reviewed prior to submission of the draft.
- No risks were recognised in the value for money element of the audit.
- The health check for the Council's balances in 2021 was looking positive.
- He confirmed that Ernst and Young were still independent from the Council.
- He drew attention to the additional fees that they would be charging for which would have to be agreed with the PSAA.

Ernst & Young, the Group Accountant and the Executive Director responded to questions on the Statement of Accounts and the ISA260 relating to:

- The long term debt written off was from Morston Assets who had gone into liquidation owing contributions to the Council for developments.
- The earmarked reserves could be used at a later date, they had been increased over recent years to take into account the financial situation.
- He confirmed that provided all the points and adjustments raised by the auditors had been completed the accounts were materially correct.
- He agreed that checking had been carried out but some issues were identified with plant and equipment.
- In response to the increase in fees and the point made about the potential for working closer with the internal auditors and using the information they had produced so bringing down the costs. He said they would continue to consider the option but internal audit worked from samples and the external auditors needed to carry out a substantive audit.
- It was confirmed that there should be brackets round the figure in the table on p54.
- The related party transactions showed there had been a small number of undeclared transactions, all of which had been rectified.
- The categorising of the NWES investment to a loan was requested as he considered it was similar in nature to a loan.

The Chairman thanked Dan Cook from Ernst and Young for attending and answering questions from the Committee.

The Committee considered the Statement of Accounts (SOA) 2017/2018 which was the final accounts set out in a format which included the Council's balance sheet and associated notes. The report also considered the report from the Auditor on the Accounts 2017/2018 – the International Auditing Standard (ISA 260).

The Committee was reminded that the Council must formally approve the SOA for 2017/2018 by 31 July 2018. As the Council's designated S151 Officer, the Executive Director, Finance Services, was responsible for the SOA and certified her acceptance of the accounts. It was noted that associated with the final accounts the Council was required to sign off an Annual Governance Statement (AGS) which was separately listed on the Agenda.

On agreement of the Accounts, the Chairman and the S151 Officer signed the Statement of Accounts with a bracket amendment on p54, and the Letter of Representation on behalf of the Borough Council of King's Lynn and West Norfolk.

RESOLVED: The Audit Committee:

- 1) Considered the comments of the Auditor in the ISA260.
- 2) Approved the Statement of Accounts for 2016/2017 as now amended.

A26 **ANNUAL GOVERNANCE STATEMENT COVERING THE 2017/2018 YEAR**

In presenting the report, the Senior Policy and Performance Officer reminded the Committee that the preparation and publication of an Annual Governance Statement (AGS) was a statutory requirement. The AGS was a public statement that described and evaluated the Council's overall governance arrangements, in particular how it had complied with its Code of Corporate Governance during a particular financial year.

The key issues were outlined as set out in the report and an amendment on p54 was pointed out: row 2 should read Fenland, not Breckland.

On approval of the Statement, the Chairman signed the document.

RESOLVED: 1) The Committee confirmed that the 2018 Annual Governance Statement properly reflected the risk environment and that actions required to improve it were in hand.

2) The Committee approved the 2018 Annual Governance Statement and confirmed that the Chairman of the Audit Committee should sign accordingly.

A27 **ANNUAL TREASURY OUTTURN REPORT 2017/2018**

The Committee considered the report which reminded Members that the Council had formally adopted the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (2009) and remained fully compliant with its requirements. As such there was a requirement to make an annual review of its Treasury operation for the previous year.

This Annual Treasury Outturn Report looked backwards at 2017/2018 and covered:

1. The 2017/2018 Treasury Outturn
2. Compliance with Treasury Limits
3. Outturn Summary:

In summary the Council:

- Did not pursue any debt rescheduling as long term loans were reviewed against future long term rates and early repayment penalties.
- Ensured counterparty listings on our lending lists were maintained and updated regularly, and reported in monthly monitoring reports as necessary.
- Ensured priority was given to security and liquidity in order to reduce counterparty risk. This was achieved by adopting Link Asset Services methodology of using ratings from three agencies to provide the core element of the credit watch service with outlooks and credit default swaps spreads to give early warning signs of changes, and sovereign ratings to select counterparties.
- Undertook benchmarking with other local Councils to ensure that experiences were shared and investment instruments were consistent, while maintaining good credit quality and security.

Additional supporting information was provided as follows:

- Appendix 1 - Investments as at 31 March 2018
- Appendix 2 - Borrowing as at 31 March 2018
- Appendix 3 - Property Investment Portfolio as at 31 March 2018
- Appendix 4 - Prudential Indicators
- Appendix 5 - The Economy 2017/2018

The Council's Treasury Policy Statement 2017/2018 and Annual Treasury Strategy Statement 2017/2018 were approved by Cabinet on the 28 February 2017.

The Group Accountant responded to questions on :

- Short term borrowing to assist with cash flow at year end.
- Loaning out finances to other organisations
- The workings around the payment of debt against the Council's income stream
- The inability to take out loans for Revenue purposes, only Capital.
- The NWES situation would be considered in due course.

RESOLVED: THAT THE ACTUAL TREASURY OUTTURN 2017/2018 BE APPROVED.

A28

COMMITTEE WORK PROGRAMME 2018/2019

The Committee work programme was noted.

A discussion ensued on the budget monitoring report and it was agreed that rather than automatically putting it onto the agenda each time, Members of the Committee would be invited to raise any training or explanatory issues arising from the Report and they would be included within the agenda.

A29 **DATE OF NEXT MEETING**

The meeting on 17 September 2018 would be converted into a training session for the Committee.

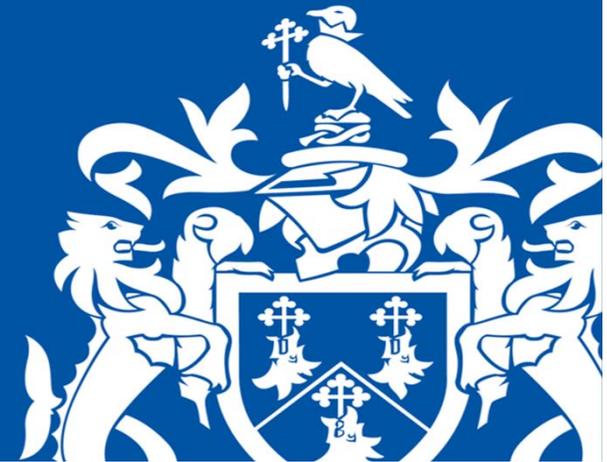
The meeting closed at 7.00 pm



The Statement of Accounts 2017/2018

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Toby Cowper
Financial Services Manager / Deputy
Section 151 Officer



Agenda

- Closing the Accounts
 - Why/When
- Statement of Accounts
 - Contents
 - Core Statements
 - Notes to the Core Statements
- Audit
- Future Changes



Closing The Accounts

- Why?
 - Local Government Act 1982
 - Local Government & Housing Act 1989
 - Accounts and Audit Regulations
 - Code of Practise on Local Authority Accounting in the UK (CODE)
 - International Financial Reporting Standards (IFRS)

Closing The Accounts

- Time line for 2017/2018 accounts
 - 31 March – Year end
 - 31 May – Draft accounts published
 - 31 July – Final accounts published

Role of the Audit Committee

Role of the Audit Committee for 2018

- Considers the comments of the Auditor in the ISA260 misstatements report
- Considers and approve the Statement of Accounts and the Annual Governance Statement for 2017/2018
- The Chairmen signs the Statement of Accounts, Annual Governance Statement and the Letter of Representation on behalf of the Borough Council of King's Lynn and West Norfolk

Statement of Accounts 2017 / 2018



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The Councils 2017 / 2018 Statement of Accounts can be found at: https://www.west-norfolk.gov.uk/info/20160/budgets_and_spending/361/final_accounts

The Statement of Accounts

- Statement of Responsibilities
- Narrative Report
- Core Statements
 - Movement in Reserves Statement (MIR's)
 - Comprehensive Income and Expenditure statement (I&E)
 - Balance Sheet
 - Cash Flow Statement
- Notes to the Accounts
- Collection Fund
- Accounting Policies
- Group Accounts
- Auditors Report

Statement of Responsibilities Pages 1-2

There are two parts to the ‘Statement of Responsibilities’

The first part is signed by the chair of the Audit Committee on behalf of the Council to confirm that the statement of accounts was approved by Audit Committee (before the end of July)

The second part is signed by the Council’s Section 151 Officer to confirm that the statement of accounts represents a **‘True and Fair’** view of the Council’s financial position

Narrative Report

Pages 3–27

- Introduces the Statement of Accounts and summarises the outturn position (Capital and Revenue) as reported to the Council in June.

The Statement of Accounts

The Core Statements

Movement in Reserves Statement

Pages 29-31

- **Summarises how the usable reserves/balances held by the Council have changed during the financial year**

Usable Reserves

- General Fund
- Earmarked Reserves
- Usable Capital Receipts
- Capital Grants Unapplied

Income and Expenditure Account

Page 32

- **Reports net cost for the year of all functions for which Authority is responsible**
- **Demonstrates how cost has been financed from government grants and income from local taxpayers**

Income and Expenditure Account

Net Cost of Services 2017/2018 - £22,615,000

The I&E for 2017/2018 is set out in a similar format to our internal budget monitoring but contains additional technical adjustments.

Income and Expenditure Account

Other Operating Expenditure 2017/2018

Deals with other Income and Expenditures not connected with services

- Parish precepts and IDBs
- gains/losses on disposal of assets eg preserved RTBs, industrial land and NORA houses

Further detail - note 9 - page 47



Income and Expenditure Account

Financing and Investment Income and Expenditure

Deals with receivable and payable interest

- Borrowing interest
- Investments interest
- Pension interest
- Investment properties

Further detail - note 10 - page 47

Income and Expenditure Account

Taxation and Non-Specific Grants Income and Expenditure

Shows the sources of the Councils financing

- Council tax
- Business Rates
- Government grants like RSG and New Homes Bonus

Further detail - note 11 - page 48

Balance Sheet

Page 33

- **Financial Statement at a point in time - year end 31 March 2018 - showing total assets and liabilities (amounts owed)**
- **The net worth of the Borough as at 31 March 2018 is £134m**

Balance Sheet

Long Term Assets

- Movement in value of assets includes
 - capital programme additions / disposals
 - depreciation and impairment
 - revaluations (assets valued every 5 years)
- Intangible assets (not physical assets)
 - software licences
 - nomination rights social housing schemes

Balance Sheet

- **Current Assets**

Assets readily converted to cash

- **Current Liabilities**

Amounts owed immediately or in less than one year



Balance Sheet

Long Term Liabilities

- Other Liabilities – represents the outstanding finance lease obligations on assets
- Pension Liability – estimated liabilities of pension scheme exceed the assets – actuarial valuation at 31 March 2018



Balance Sheet

Reserves and Balances (usable and unusable)

<u>Usable</u>	<u>Unusable</u>
General Fund Balance	Revaluation Reserve
Earmarked Reserves	Capital Adjustment Account
Usable Capital Receipts	Financial Instruments Adjustment Account
Capital Grants Unapplied	Pensions Reserve
	Collection Fund Adjustment Account
	Accumulating Compensated Absences Adjustment Account



Cash flow Statement

Page 35

- Shows changes in the cash and cash equivalents position of the Council during the reporting period.

Disclosure Notes

Pages 36-101

- The disclosure notes provide a detailed breakdown of the financial information set out in the core financial statements

Disclosure Notes

- Note 13 – Pages 48 to 52 – Unusable Reserves
- Note 18 – Pages 55 to 56 – Officers' Remuneration
- Note 20 – Pages 57 to 66 – Pension Scheme
- Note 27 – Pages 79 to 83 – Property Plant Equipment



Collection Fund

Pages 102-108

The Council also acts as the Billing Authority for Council Tax and Business Rates (collection and redistribution)

This section deals with the accounts for the Billing Authority, which is a separate fund to the Council's General Fund Balance .



Accounting Policies

Pages 109-133

- These are the accounting policies by which the Councils Statement of Accounts is prepared

Group Accounts

Pages 134 -147

These additional financial statements show the Councils financial position with the accounts for Alive Management Limited consolidated into them.

Alive Management Limited is the Council's wholly owned Local Authority Leisure Company



Audit Report

Pages 153 - TBC

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Auditors opinion on the 2017/2018 Statement of Accounts

Audit timeline

- Internal Controls Audit March/April
 - Management letter on internal controls
- Audit of Accounts June/July
- Opinion on Accounts (31 July 2018)
 - ISA260 Misstatements Report
 - Audit Opinion
 - Annual Audit Letter (December/March)



The Statement of Accounts Future Changes

2018/2019

- **Updated guidance and disclosures around financial instruments**

2019/2020

- **Updated guidance and disclosures around leases**



Borough Council of King's Lynn & West Norfolk

Annual Audit Letter for the year
ended 31 March 2018

28 August 2018

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Focused on your future



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated 23 February 2017)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



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01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to the Borough Council of King's Lynn & West Norfolk (the Council) following completion of our audit procedures for the year ended 31 March 2018.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended.
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

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Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was presented to the Audit Committee on 30 July 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 31 July 2018.

We will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken, once this work has been completed. We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.



Mark Hodgson

Associate Partner
For and on behalf of Ernst & Young LLP
Encl



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02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the 30 July 2018 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we presented at the 12 February 2018 Audit Committee and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2017/18 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



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03

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 July 2018.

Our detailed findings were reported to the 30 July 2018 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Risk of Fraud in Revenue and Expenditure Recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>One area susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's Capital programme.</p>	<p>We focused on:</p> <ul style="list-style-type: none"> ▶ Understanding the controls put in place by management relevant to this significant risk; ▶ Considering whether or not purchase invoices were being inappropriately classified as capital; and ▶ Whether management were inappropriately processing journals that transferred amounts from revenue to capital. <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> ▶ Documented our understanding of the controls relevant to this significant risk and confirmed they have been appropriately designed; ▶ Reviewed and discussed with management any accounting estimates and policies on revenue or expenditure recognition for evidence of bias; ▶ Obtained breakdown of capital additions in the year and reviewed the descriptions to identify any items that could be revenue in nature; ▶ Reviewed and tested revenue cut-off at the year-end date; and ▶ Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes. <p>Our testing did not identify any material misstatements from revenue and expenditure recognition. We judged all capital additions to be appropriately supported.</p> <p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p>Risk of Management Override</p> <p>As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>We focused on:</p> <ul style="list-style-type: none"> ▶ ISA 240 mandates we perform procedures on: accounting estimates, significant unusual transactions and journal entries to ensure they are appropriate and in line with expectations of the business; and ▶ We are also required to identify specific additional risks of management override. The specific additional risk identified is with regards to manipulation of year-end accounting entries. Estimation techniques is an area subject to management override of controls which includes non-routine income and expenditure accruals and provisions for example the Non Domestic Rates (NDR) appeals provision. <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ Reviewing accounting estimates for evidence of management bias; and ▶ Evaluating the business rationale for significant unusual transactions. <p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Area of Audit Focus	Conclusion
<p>Property, Plant and Equipment Valuation</p> <p>Property, Plant and Equipment represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet.</p> <p>The Council will be using its internal expert for 2017/18, to value the Council's asset base, who will apply a number of complex assumptions and assess the Council's assets to identify whether there is any indication of impairment and changes to their useful life.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We focused on:</p> <ul style="list-style-type: none"> ▶ The adequacy of the scope of the work performed by the internal valuer including their professional capabilities. ▶ The reasonableness of the underlying assumptions used by the Council's internal valuer. <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> ▶ Considered the reliance placed on management's valuation experts and undertook a review of the internal valuer's work. This included comparison to industry valuation trends; ▶ Considered the annual cycle of valuations to ensure that assets had been valued within a 5 year rolling programme as required by the Code for PPE. We have also considered if there were any specific changes to assets that have occurred and that these have been communicated to the valuer; ▶ Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated by using market indices to assess movements from last revaluation dates; and ▶ Tested the accounting treatment of valuations made in the year, including the assessment and treatment of impairments. <p>Our testing did not identify any material misstatements from property, plant and equipment valuation. We did identify some audit adjustments as part of our valuation testing, these were reported in the audit results report presented to Audit Committee on 30 July 2018.</p> <p>Overall our audit work did not identify any material issues or concerns with the scope of work or underlying assumptions used by the Council's internal valuer.</p> <p>Our consideration of the annual cycle of valuations did not identify any issues with the implemented plan or with the movement on assets not revalued in year.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Area of Audit Focus	Conclusion
<p>Pension Valuation and Disclosures</p> <p>The Local Authority Accounting Code of Practice (the code) and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.</p> <p>Accounting for this scheme involves significant estimation and judgement.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We focused on:</p> <ul style="list-style-type: none"> ▶ The reasonableness of the underlying assumptions used by the Council's expert - Hymans Robertson; ▶ Ensuring the information supplied to the actuary in relation to Borough Council of King's Lynn & West Norfolk was complete and accurate; and ▶ Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Hymans Robertson. <p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> ▶ Liaised with the auditors of Norfolk Pension Fund, and obtain assurances over the information supplied to the actuary in relation to the Borough Council of King's Lynn & West Norfolk; ▶ Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team; and ▶ Reviewed and tested the accounting entries and disclosures made within the Borough Council of King's Lynn & West Norfolk's financial statements in relation to IAS19. <p>We reviewed the assessment of the pension fund actuary by PWC and EY pensions and undertook the work required.</p> <p>A movement on the total fund asset between the estimated year end balance and the actual was identified by the pension fund auditor. The impact of this was an understatement of the Council's pension assets by £1.258 million. This amount was above our summary of audit differences level and was adjusted in the accounts.</p> <p>We did not identify any issues with the accounting entries and disclosures made within the financial statements.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Area of Audit Focus	Conclusion
<p>Major Housing Project</p> <p>The Council has sold the first of the properties as part of the Major Housing Project during the period. Sales in 2017/18 are expected to be material. Early discussions with finance officers suggest that the accounting treatment for the sales has not been finalised. As a result there is a risk that the financial statements could be materially misstated at year-end.</p>	<p>We focused on:</p> <ul style="list-style-type: none">▶ The reasonableness of the underlying assumptions used by the Council; and▶ Ensuring the accounting entries and disclosures made in the financial statements were accurate. <p>We performed the following audit procedures:</p> <ul style="list-style-type: none">▶ Reviewed the contractual arrangements of the Major Housing Project;▶ Checked a sample of property sales to ensure they are been valued correctly;▶ Reviewed the accounting treatment proposed by the Council and ensured this is compliant with the relevant accounting standards and Code of Practice; and▶ Ensured the accounting entries are correctly reflected in the financial statements. <p>We did not identify any issues with the accounting entries and disclosures made within the financial statements.</p>

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £1.7 million (2016/17 £1.7 million), which is 2% of gross expenditure on provision of services reported in the accounts. We consider gross expenditure on provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.087 million (2016/17 £0.08 million).

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We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Exit packages: We agreed all exit packages back to supporting documentation.
- ▶ Remuneration disclosures: We lowered our testing threshold to ensure we tested the largest senior officer salaries back to supporting documentation.
- ▶ Related party transactions: We consider materiality from the perspective of the related party body as well as the Council.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.



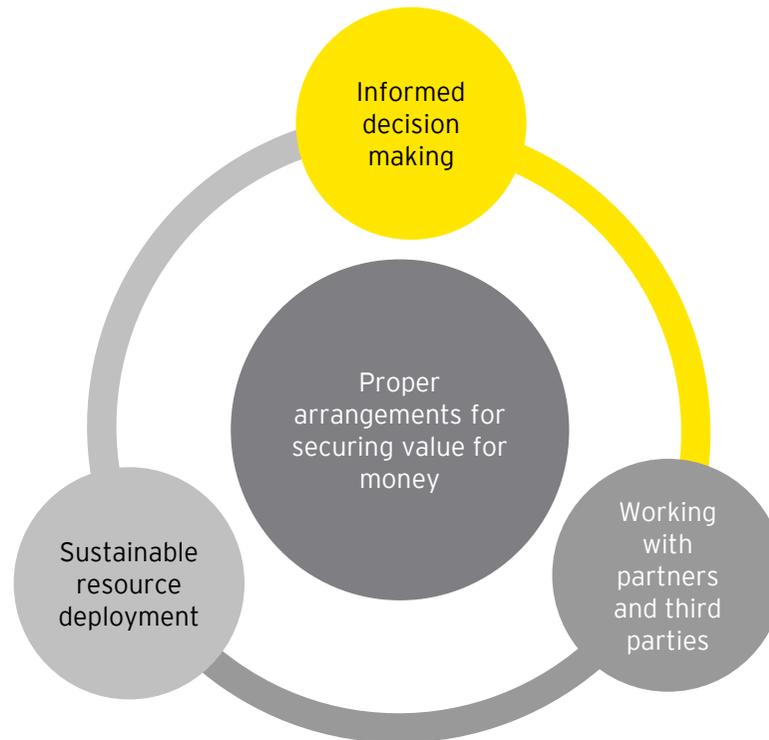
04 Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.



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We did not identify any significant risks in relation to these criteria.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



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05

Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We identified one written recommendation which we included in the Audit Results Report presented to Audit Committee on 30 July 2018:

Recommendation - The Council should continue to improve and enhance the quality review process prior to the authorisation of the draft financial statements to help minimise audit adjustments. We acknowledge that this is the first year of faster close and the 31 May statutory deadline.



Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 30 July 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

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Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee, except for the issue raised in the written recommendation section above.



06 Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below. The Council will need to keep these standards under continued focus during 2018/19.

Standard	Issue	Impact
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> ▶ How financial assets are classified and measured; ▶ How the impairment of financial assets are calculated; and ▶ The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> ▶ Reclassify existing financial instrument assets; ▶ Re-measure and recalculate potential impairments of those assets; and ▶ Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> ▶ Leases; ▶ Financial instruments; ▶ Insurance contracts; and ▶ For local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts when that trading company is consolidated.</p>



Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>



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Audit Fees

Audit Fees

Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our 30 July 2018 Audit Results Report.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£'s	£'s	£'s	£'s
Total Audit Fee - Code work (See Note 1)	To be confirmed	53,291	51,291	58,291
Total non-audit services - Housing Benefit Subsidy (See Note 2)	To be confirmed	18,556	18,556	22,000
Total Fees	tbc	72,847	69,847	80,291

Note 1:

The Council produces consolidated financial statements which in prior years have incurred a scale fee variation to reflect the additional work required for the consolidation including instructing and relying upon the component auditor and in reviewing the disclosures required to meet the group consolidation requirements of the Code of Practice and International Accounting Standards. This will incur an additional fee of £3,000. There is likely to be additional fees for the additional work performed on the Major Housing Project risk identified.

We need to assess the impact of the audit adjustments and disclosure errors on the quantum of our audit work. This will lead to a variation to the Scale Fee being levied but we are at this stage, unable to quantify the quantum of that amount. This additional fee will be discussed with management and is then subject to approval by the PSAA. We will report separately once this approval process is complete.

Note 2:

The final fee for the Housing Benefit Subsidy certification will be confirmed upon completion by the 30 November deadline. We will report the final fee in our annual grant certification report.

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AUDIT COMMITTEE WORK PROGRAMME 2018/2019

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
30 May 2018	Training/Briefing – Internal and External Audits		K Woodward	
30 May 2018	Certification of Claims and Annual Report 2016/17	Annual	D Cooke Ernst & Young	
30 May 2018	Risk Based Verification Policy Update	Update	J Stanton	
30 May 2018	Corporate Risk Register	Monitoring	G Greaves	To note the report which presents the changes to the Risk Register since the last report.
30 May 2018	Draft Annual Governance Statement covering the 2017/2018 year.	Monitoring	G Greaves	To receive and note the draft Annual Governance Statement for the 2017/2018 year
30 May 2018	Internal Audit Annual Report and Opinion 2017/2018	Annual	K Woodward	To receive the Audit Manager's Annual Report.
30 May 2018	Internal Audit Full Year Progress Report 2017/2018	Progress Report	K Woodward	To receive the Audit Manager's Annual report.
30 May 2018	Audit Committee Effectiveness Report	Cabinet	K Woodward	To review the work of the Audit Committee during 2017/2018 and consider if the Committee has effectively fulfilled its role.

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Agenda Item 8

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
30 July 2018	Training/Briefing – Statement of Accounts		T Cowper	
30 July 2018	Statement of Accounts		L Gore/ T Cowper	
30 July 2018	External ISA 260 Report		L Gore/ T Cowper	
30 July 2018	Annual Governance Statement Covering the 2017/2018 year	Annual	G Greaves	To approve the Annual Governance Statement for the 2017/2018 year..
30 July 2018	Treasury Outturn Report 2017/2018		T Cowper	
17 September 2018	Annual Audit Letter for Year ending 31 March 2018	Annual Audit Letter	L Gore	
Immediately following the meeting commencing at 5 pm, the Committee will receive the following training session				
17 September 2018	Audit Committee – An Introduction.		K Woodward	
12 November 2018	Training/Briefing - Review of Funding			
12 November 2018	Business Continuity Update	Annual Update	M Chisholm	

DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
12 November 2018	Corporate Risk Register Monitoring Report	Monitoring	G Greaves	To note the report which presents the changes to the Risk Register since the last report.
12 November 2018	Internal Audit Half Year Progress Report	Monitoring	K Woodward	To receive the half year progress report.
12 November 2018	Mid-Year Treasury Report	Mid-Year	T Cowper	To receive the mid-year report.
28 January 2019	Training – Treasury Strategy			
28 January 2019	Strategic Internal Audit Plan		K Woodward	To provide the Committee with the opportunity to review the proposed Strategic Audit Plan 2017 – 2022.
28 January 2019	Update on progress with the Annual Governance Statement covering the 2018/2019 year	Update	G Greaves	To provide the Committee with an update on the progress with the Annual Governance Statement covering the 2018/2019 year.
DATE OF MEETING	TITLE	TYPE OF REPORT	LEAD OFFICER	OBJECTIVES AND DESIRED OUTCOMES
28 January 2019				
11 March 2019	Training/Briefing -Principles of Public Life, Business Rates Retention			

Future Training Sessions – Date(s) to be identified

Contracts (Nora, Major Housing, Revenues and Benefits software, Refuse and Recycling)